

WASHINGTON, D.C.



THE COMMONWEALTH

### SEMINAR ON INNOVATIVE DEBT RESTRUCTURING SOLUTIONS

TABLE OF CONTENTS

CONFIDENTIAL. FOR DISCUSSION PURPOSES ONLY.
NOT TO BE DISTRIBUTED.

- I. Understanding the global context
- II. Building resilience and sustainability
- III. Unpacking the fundamentals of a debt-for-nature swap

١.

UNDERSTANDING THE GLOBAL CONTEXT

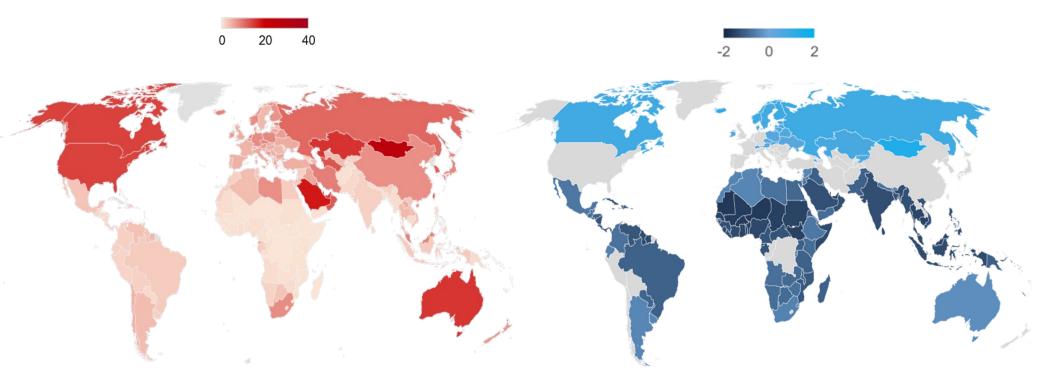
Economic recovery and immediate financing needs

Building long-term sustainable growth and resilience to climate change

Restoring debt sustainability and market access

### ANNUAL PER CAPITA CO2 EMISSIONS (TONS)

### CLIMATE VULNERABILITIES: EFFECT OF 1C TEMPERATURE INCREASE ON REAL OUTPUT PER CAPITA (IN PERCENTAGE POINTS)

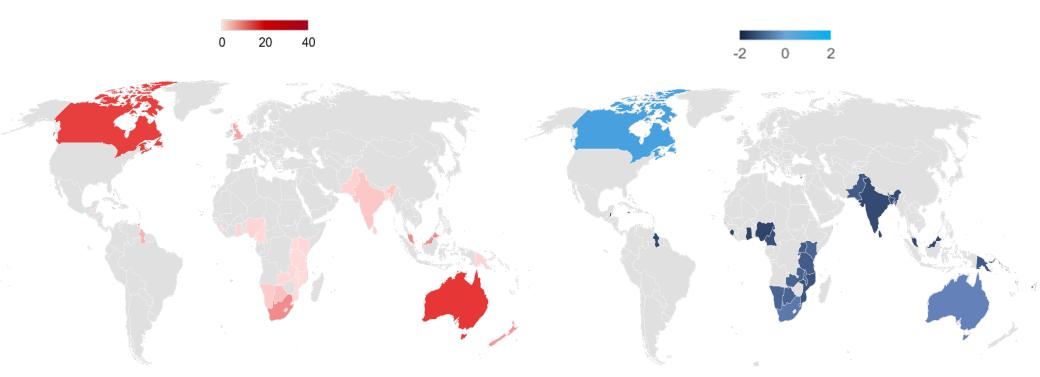


Source: Our World in Data (OWID) & IMF World Economic Outlook (October 2017)

### THE COMMONWEALTH SOUTH IS INCREASINGLY VULNERABLE DESPITE LOWER CONTRIBUTION TO CLIMATE CHANGE

### **ANNUAL PER CAPITA CO2 EMISSIONS (TONS)**

### CLIMATE VULNERABILITIES: EFFECT OF 1C TEMPERATURE INCREASE ON REAL OUTPUT PER CAPITA (IN PERCENTAGE POINTS)



Source: Our World in Data (OWID) & IMF World Economic Outlook (October 2017)

### **COMMONWEALTH RISK MATRIX**



Low or Middle Risk of Debt Distress

High Risk of or In Debt Distress



Source: Thomson Reuters Refinitiv; IMF Article IVs; IMF-World Bank Joint LIC External Debt Distress Database; UNCTAD & Author's Calculations

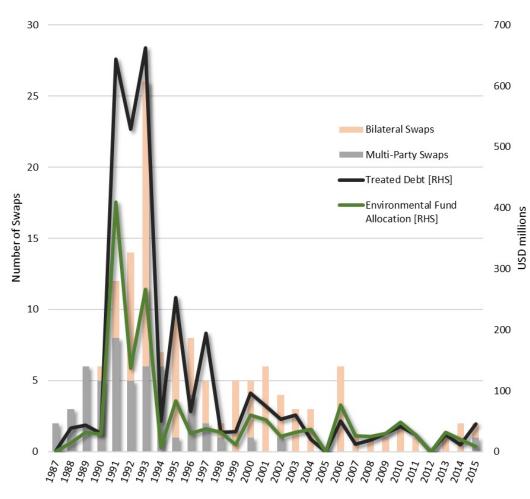
Note: Figure is based on the concept highlighted in the UNCTAD blog, "Global debt and climate crises are intertwined: Here's how to tackle both", published on March 1, 2023 and adapted to Commonwealth member nations

POTOMAC GROUP 8

П.

BUILDING RESILIENCE AND SUSTAINABILITY

### **Historical Debt-for-Nature Swaps**



Sources: WWF; Congressional Research Service (Sheikh, 2018); USAID, Kamel and Tooma, 2005; Cassimon, Essers, and Fauzi, 2014; PROFONANPE, Egolf, 2001; TNC



 $\mathbf{\Omega}$ 

ш



- Debt for "something" swaps
- Debt swaps exchange existing debt, usually at a significant discount, for commitments to invest in climate and nature outcomes.



### EN BOND

ш

 $\Delta$ 

( )

- Use of proceeds bonds
- Green Bonds or Blue Bonds or SDG Bonds - are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects.



## SOVEREIGN SLB

- Performance-linked bonds
- SLB proceeds would be primarily for the general purposes of a sovereign issuer in pursuit of identified Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs).

Grants

Green & themed debt instruments

Sustainability-linked debt instruments

Carbon markets & Biodiversity markets



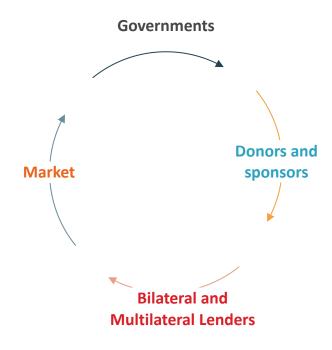
### **Governments**

- Development plan based on "green" and "blue" economies
- · Taskforce with clear objectives
- Confirmation of goals and commitments to conservation
- Alignment of financial and environmental objectives



### **Market**

- Bondholders
- · Local/global creditors and investors
- Credit rating agencies





### **Donors and sponsors**

- · Capacity building
- · Technical assistance
- Grants
- · Credit enhancement
- Blended finance instruments



### Bilateral and Multilateral Lenders

- Bilateral partners, including Paris Club members and non-Paris Club members
- World Bank, regional development banks and others
- Credit guarantees
- Political risk insurance
- · Grants or "pay for performance"

POTOMAC GROUP

Ш.

UNPACKING THE FUNDAMENTALS OF A DEBT-FOR-NATURE SWAP

## **OBJECTIVE**

A debt-for-nature swap aims to reallocate part of a sovereign's budget from debt service to conservation

# Issuer

\$\$\$

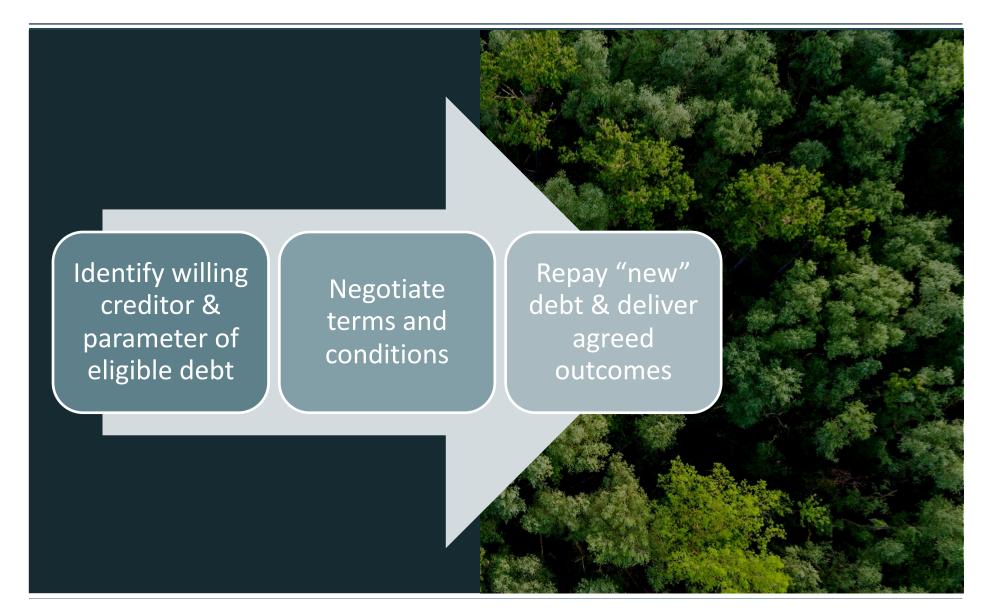
PROMISE

### **LENDER**

(a.k.a. "creditor" which can be multilateral, bilateral, commercial, external, or domestic)

- > Coupo ments
- Principayment
- > Reduced coupon
- > Reduced principal repayment
- Conservation commitments

### DEBT-FOR-NATURE SWAP - DIRECTLY WITH CREDITOR



### Issuer

\$\$\$ Purchase existing lebt PROMISE

Market operation or negotiation

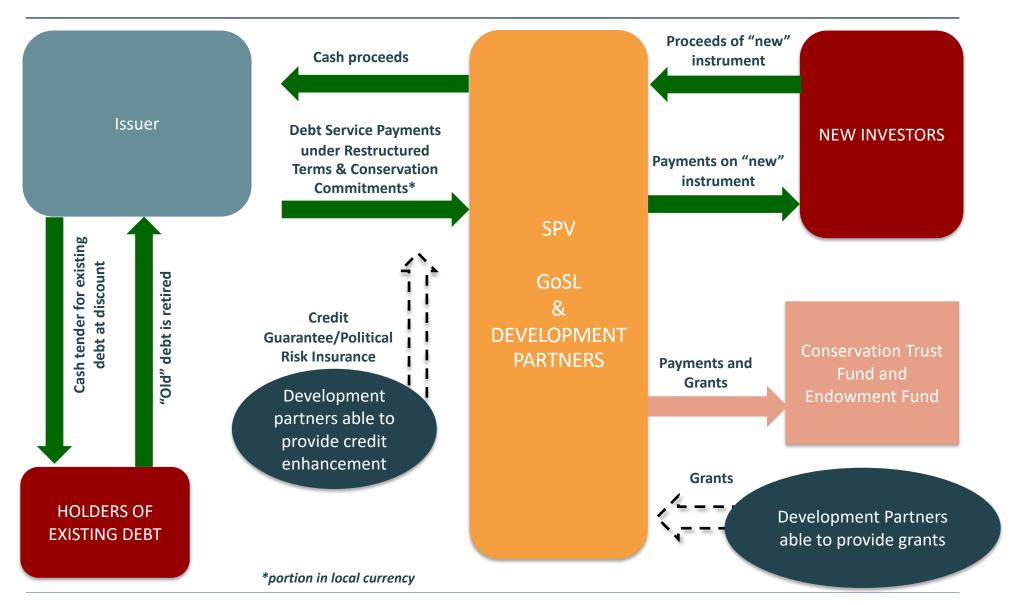
### **LENDER**

(a.k.a. "creditor" which can be multilateral, bilateral, commercial, external, or domestic)

Repayment of new obligation

Conservation commitments

THIRD-PARTY SPONSOR



Alignment with restructuring strategy and IMF program

Possible "conditionalities" to donor support

Government approvals

Engagement with civil society and local communities

Establishment of SPV, Conservation Trust, etc.

Procurement of investment bank, lawyers, etc.

Documentation

Conservation activities

### APPENDIX. ADDITIONAL RESOURCES

### RELEVANT MEDIA & PUBLICATIONS BY POTOMAC GROUP

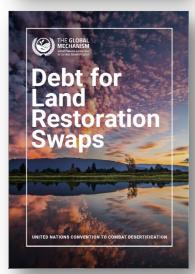


For more information and links to our publications, please see our website <a href="https://www.potomac-group.com">www.potomac-group.com</a>

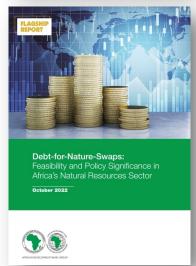
You can also find our podcast on Apple, Spotify, Google, or other podcast outlets

Follow us on LinkedIn, Twitter, or Instagram









### THANK YOU

Potomac Group LLC 2550 M Street NW, Suite 324 Washington, DC 20037

info@potomac-group.com potomac-group.com